1969

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Canadian Pacific Annual Report

Contents

Notice to Shareholders

The Eighty-ninth Annual General Meeting of the Shareholders of this Company, for the election of Directors to take the places of the retiring Directors and for the transaction of business generally, will be held on Wednesday, the sixth day of May next, at Le Château Champlain, Place du Canada, Montreal, at eleven a.m. (daylight saving time, if operative). Transfer books of shares and stock will be closed at the close of business on Tuesday, the 28th day of April, 1970.

All books will be re-opened on Thursday, the seventh day of May, 1970.

By order of the Board,
T. F. Turner, Secretary.

Montreal, March 9th, 1970.

Stock Transfer Agents

Bank of Montreal Trust Company,
2 Wall Street, New York

The Royal Trust Company,
1648 Hollis Street, Halifax, N.S.
1 King Street, Saint John, N.B.
630 Dorchester Boulevard West, Montreal
Toronto Dominion Centre, Toronto
287 Broadway, Winnipeg
101 McCallum Hill Building, Regina
606 - 7th Avenue S.W., Calgary
P.O. Box 2031, Vancouver

Deputy Secretary,
8 Waterloo Place, London, S.W.1, England

Stock Listings

Debenture Stock (Sterling) listed on:
London Stock Exchange

Debenture Stock (U.S. Currency) listed on:
New York Stock Exchange

Preference Stock (Sterling) listed on:
Montreal, Toronto, Vancouver and London, Eng. Stock Exchanges

Preference Stock (Canadian Dollar) listed on:
Montreal, Toronto, Vancouver and London, Eng. Stock Exchanges

Ordinary Stock listed on:
Montreal, Toronto, Vancouver, New York and London, Eng. Stock Exchanges

For more information, shareholders should write to:
T. F. Turner, Secretary,
Canadian Pacific Railway Company,
Montreal 101, Canada.

Cover design graphically represents divisional colors used to identify the multi-faceted operations of Canadian Pacific.

Summary of Earnings of the Company and its Subsidiaries and of Dividends Paid

	1969 (in thousands, except amounts per share)		1968	
		Per Ordinary Share		Per Ordinary Share
Earnings of the Company and its Subsidiaries				
Net railway earnings	**$34,635**		$41,260	
Other income	**19,197**		23,433	
Income before fixed charges	**53,832**		64,693	
Fixed charges	**22,425**		21,919	
Income from railway and miscellaneous sources	**31,407**	**$1.96**	42,774	$2.75
Income (being dividends received) from				
Canadian Pacific Investments Limited	**22,932**	**1.60**	21,499	1.50
Canadian Pacific Air Lines, Limited	**1,433**	**0.10**	1,584	0.11
Total, excluding earnings retained by subsidiaries and before extraordinary items	**55,772**	**3.66**	65,857	4.36
Equity in earnings retained by subsidiaries	**17,684**	**1.23**	18,476	1.29
Total before extraordinary items	**73,456**	**4.89**	84,333	5.65
Extraordinary items (C.P.R. 1969 – Nil 1968 – ($8,100,000))	**3,153**	**0.22**	(6,770)	(0.48)
Total	**$76,609**	**$5.11**	$77,563	$5.17
Dividends Paid				
On Preference stock – 4%	**$ 3,329**		$ 3,326	
On Ordinary stock				
From railway and miscellaneous sources	**$21,499**	**$1.50**	$21,499	$1.50
Flow-through from Canadian Pacific Investments Limited	**22,932**	**1.60**	21,499	1.50
Flow-through from Canadian Pacific Air Lines, Limited	**1,433**	**0.10**	—	—
	$45,864	**$3.20**	$42,998	$3.00

Board of Directors and Officers

Directors

*W. A. Arbuckle,
Chairman of the Canadian Board,
The Standard Life Assurance Company,
Montreal

G. H. Baillie, *Chairman,*
Metro Centre Developments Limited, Toronto

G. Maxwell Bell, *Chairman,*
"F. P." Publications Limited, Calgary

W. J. Bennett, OBE, *President,*
Iron Ore Company of Canada, Montreal

Sir George Bolton, KCMG, *Chairman,*
Bank of London & South America Limited,
London, England

*George W. Bourke,
Chairman of the Executive Committee,
Sun Life Assurance Company of Canada,
Montreal

Cyril F. H. Carson, QC, *Partner,*
Tilley, Carson & Findlay, Toronto

The Honourable J. V. Clyne,
Chairman of the Board and
Chief Executive Officer,
MacMillan Bloedel Limited, Vancouver

*N. R. Crump, *Chairman of the Company,*
Canadian Pacific Railway Company, Montreal

*S. M. Gossage, *Vice-President,*
Canadian Pacific Railway Company, Montreal

G. Arnold Hart, MBE,
Chairman and Chief Executive Officer,
Bank of Montreal, Montreal

Allard Jiskoot, *Partner,*
Pierson, Heldring & Pierson,
Amsterdam, The Netherlands

David Kinnear, *Chairman,*
The T. Eaton Co. Limited, Toronto

*Herbert H. Lank, *Director,*
Du Pont of Canada Limited, Montreal

W. Earle McLaughlin, *Chairman and President,*
The Royal Bank of Canada, Montreal

Claude Pratte, QC, *President,*
Pratte and Côté Inc., Quebec City

Lucien G. Rolland,
President and General Manager,
Rolland Paper Company, Limited, Montreal

A. M. Runciman, *President,*
United Grain Growers Limited, Winnipeg

*Ian D. Sinclair,
President and Chief Executive Officer,
Canadian Pacific Railway Company, Montreal

*H. Greville Smith, CBE, *President,*
Canadian International Investment Trust
Limited, Montreal

M. B. Steinkopf, MBE, QC,
Barrister and Solicitor, Winnipeg

Harold M. Turner, *Chairman of the Board,*
The Mutual Life Assurance Company
of Canada, Toronto

Norman E. Whitmore, *President,*
Whitmores Limited, Regina

Henry S. Wingate,
Chairman of the Board and Chief Officer,
The International Nickel Company of Canada,
Limited

*Member of Executive Committee

Officers

N. R. Crump, *Chairman of the Company,* Montreal
Ian D. Sinclair, *President and Chief Executive Officer,* Montreal
S. M. Gossage, *Vice-President of the Company,* Montreal

Corporate Services

K. Campbell, *Vice-President Administration,* Montreal
D. I. McNeill, QC, *Vice-President, Special Duties,* Montreal
F. A. Rutherford, *Vice-President and Comptroller,* Montreal
G. J. van den Berg, *Vice-President, Finance,* Montreal
J. A. Wright, QC, *Vice-President, Law,* Montreal

D. E. Sloan, *Treasurer,* Montreal
T. F. Turner, *Secretary,* Montreal

CP Rail

S. M. Gossage, *Vice-President and Senior Executive Officer,* Montreal
J. C. Anderson, *Vice-President, Industrial Relations,* Montreal
J. M. Bentham, *Vice-President, Purchases and Stores,* Montreal
F. S. Burbidge, *Vice-President Marketing and Sales,* Montreal
D. M. Dunlop, *Vice-President, Operation and Maintenance,* Montreal
P. A. Nepveu, *Vice-President Accounts and Data Systems,* Montreal

J. N. Fraine, *Senior Regional Vice-President, Pacific Region,* Vancouver
R. S. Allison, *Vice-President, Prairie Region,* Winnipeg
G. E. Benoit, *Vice-President, Atlantic Region,* Montreal
L. R. Smith, *Vice-President, Eastern Region,* Toronto

Transport and Ships

W. J. Stenason, *Vice-President Transport and Ships,* Montreal

Earnings

A summary of earnings of the Company and its subsidiaries and of dividends paid is set out on page 1. It shows total earnings for the year of $5.11 per Ordinary share, compared with $5.17 in 1968. The total before extraordinary items was equal to $4.89 per share in 1969 and $5.65 in the previous year. Dividends paid on the Ordinary stock increased from $3.00 per share in 1968 to $3.20 in 1969. Of the increase, 10¢ per share was from the higher dividends that flowed through from Canadian Pacific Investments Limited and 10¢ represented the initial flow-through of dividends from Canadian Pacific Air Lines, Limited.

The results of most Canadian Pacific activities in 1969 were affected favorably by the sharp rise in the rate of economic growth in Canada in the early months of the year, and adversely by the subsequent slowing of pace as labour strife disrupted production in key industries and as anti-inflationary measures began to take effect. In the latter period the combination of slackening demand and steeply rising costs exerted strong pressures on earnings. Some operations, notably timberlands and real estate, proved more resistant to these pressures than others, such as rail operations. In some cases particular circumstances determined the direction of the year's earnings. Examples of this were strikes of competitors which gave CP Air additional revenue and, an opposite effect, the abnormally depressed price of fertilizers due to oversupply, which accounted for the less favorable results of Cominco Ltd.

But while the year may not have provided a wholly suitable climate for earnings growth, it was noteworthy for planning and action directed towards enhancing the future earnings of the Company and its subsidiaries.

Coal Developments Promising

Among the most promising activities in which Canadian Pacific is participating are those involving the development of Western Canada's vast resources of coal. It has been estimated that the sale of coal and its transportation by Canadian carriers could inject some $4 billion into the Western Canadian economy over the next 15 years.

In 1968, CP Rail signed a contract with Kaiser Resources Ltd. for movement over a 15-year period of 45.7 million long tons of coal from Sparwood, in southeastern British Columbia, to Roberts Bank, the new superport near Vancouver. During 1969 a second contract was signed with Kaiser for the movement of an additional six million tons over a period of 3 years. Shipments of the coal are contracted to begin April 1, 1970.

To accommodate this traffic, the Company is spending some $35 million on new coal cars, diesel locomotives and robot equipment, new and upgraded trackage, replacement of bridges, and new servicing facilities. The efficiency of the unit train system as designed by CP Rail is such that the total travel time for the 1,400 mile round trip will be 72 hours, as compared with about 7 days by conventional operation. This intensive utilization of equipment and facilities helps to make possible the low rail rates necessary to obtain the traffic.

Another major coal movement by CP Rail will result from the Fording coal sale negotiated during the year. Through agreement with CanPac Minerals Limited, a wholly-owned subsidiary of Canadian Pacific Investments Limited, Fording Coal Limited is undertaking to develop certain coal rights of CanPac Minerals in southeastern British Columbia. Fording Coal, which is owned 60% by Canadian Pacific Investments Limited and 40% by Cominco Ltd., signed a sales contract in June with Japanese interests for the delivery of approximately 45 million tons of coking coal over 15 years commencing April, 1972. During the past year preparatory work was done on opening up the Fording property so that construction of production facilities can begin in 1970. The coal will be moved from the Fording River site to Roberts Bank by CP Rail in an operation similar to the one developed for the Kaiser coal movement.

In view of the possibilities of future expansion of both domestic and export markets for Canadian coal, a wholly-owned subsidiary, Cascade Pipe Line Limited, has applied for a permit to build a 490-mile pipeline to carry coal in slurry form from the Kootenay area of British Columbia to the coast. Research and development work for the project is being carried out by ShelPac Research and Development Ltd., a company formed by Canadian Pacific and Shell Canada Limited to study all aspects of systems for the transportation of commodities by pipeline.

CP Rail coal unit train under test near Radium Hot Springs, B.C., in preparation for 1970 movement of Canadian export coal to Japan. Unit train system involves remote-control devices, train radio and special cars.

New CP Rail symbol on high-horsepower diesel locomotive for coal unit trains.

Oil Interests Pooled

A pooling of interests of Central-Del Rio Oils Limited and Canadian Pacific Oil and Gas Limited which had been envisaged for some time took place in the Fall, as a result of which Canadian Pacific Investments Limited now owns an 89.3% share interest in Central-Del Rio. The integrating of the two companies created one of the largest independent oil companies in Canada and the joining of their capabilities opens up wider possibilities for exploration and development. Together the companies hold oil and gas rights in nearly 20 million net acres of land, mainly in Western and Northern Canada, but also in Lake Erie, offshore Nova Scotia and in the North Sea. Their combined net reserves are estimated at 190 million barrels of oil and natural gas liquids, 1,420 billion cubic feet of natural gas and 4.5 million long tons of sulphur.

During the past year the exploration and development program was the most extensive and diverse yet undertaken by these subsidiaries. Gas discoveries were made in southern Alberta and in northeastern British Columbia. Oil discoveries were made in southern Alberta and southern Saskatchewan.

Panarctic Oils Ltd., which holds mineral rights in some 50 million acres of Canadian Arctic islands, and in which a 9% share interest is held through Central-Del Rio and 9% by Cominco Ltd., is increasing its capitalization to ensure adequate financing of its exploration program.

Integrated Movement of Containers

The most ambitious program of intermodal transportation yet undertaken by the Company began in 1969 with inauguration of an integrated sea-rail-highway movement of containers between Europe and North America. Although the service is an interim one, using two chartered ships and the Company-owned "Beaveroak", the volume of business was great enough by year end to warrant the chartering of two more vessels to handle the growth of container traffic in 1970. When three new cellular vessels which are on order are delivered in the second half of 1970 and early 1971, CP Ships in association with CP Rail and CP highway services will provide the country with its largest and most completely integrated container service. As a result of joint planning, CP Rail has developed a flat car that speeds container handling and CP Express and Smith Transport have worked out highly efficient transshipment and highway transport arrangements.

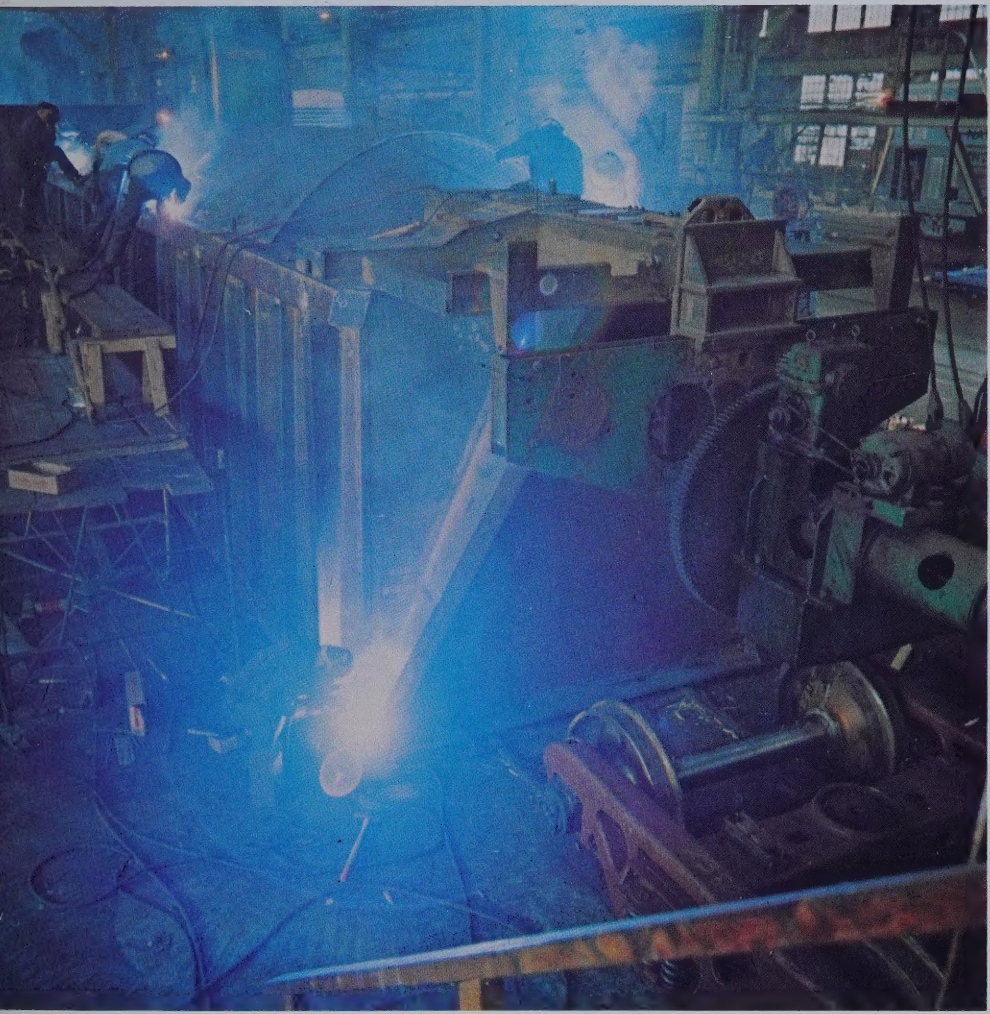
The new container ships coming into service have an initial capacity of 700 containers each, and are designed and being built so that they can readily be converted to 1,000 container capacity. They will operate, as the interim service does, between Quebec City, which offers advantages in vessel navigation, particularly in winter, and Tilbury and Rotterdam, where most CP European traffic originates. A Smithsons' subsidiary is developing a large container terminal at Quebec which will be used by CP Ships and other shipping companies.

Still other arrangements have been worked out providing for an intermodal

Continuous welded rail, each piece 1,440 feet long, is shipped from CP Rail plant at Smiths Falls, Ont., to be used in 1969 rail renewal program. Welded rail produces smoother track requiring less maintenance.

Coal unit train cars, designed by CP Rail engineers, being fabricated in Nova Scotia car building plant. In 1969, 578 cars, costing $10 million were ordered. Each will carry 105 tons and turn over to unload without uncoupling.

CP Rail "one-spot" car maintenance facility opened in 1969 at St. Luc Yard, Montreal. Highly mechanized, the shop is one of four across Canada.



container service linking Canada, Australia and New Zealand. Operating out of Saint John, N.B., where the National Harbours Board is building a $4 million container terminal, this service will be a joint project of CP Rail, Associated Container Transportation (Canada) and McLean Kennedy Limited.

Plans have been made to lengthen the "Beaveroak" when it is released from the interim service and to assign it to an additional container service operating between Quebec City, Glasgow and Liverpool.

Bulk Carrier Fleet Expanded

CP Bermuda's ocean fleet continued to grow in 1969 with the entry into service in May of the "N.R. Crump", a 28,000 ton bulk carrier. This ship is the third of a series designed for the efficient handling of forest products and bulk commodities and all three are under long term charter to Canadian Transport Company Limited.

The "Pacific Logger", a 16,000 ton log and lumber carrier entered service in September under long term contract for service between the Pacific Coast of North America and Japan.

The "T. Akasaka", a 58,000 ton bulk carrier entered service in November in worldwide trade under long term contracts for moving coal and ore. During 1970 a sister ship, the "W.C. Van Horne", is to be delivered and will enter similar trade.

The first of two 250,000 ton tankers will also be delivered in 1970 and the second in 1971. Both will operate under time charter to Gulf Oil Corporation.

Additional shares of $15.2 million of capital stock of Canadian Pacific (Bermuda) Limited were purchased by Canadian Pacific Railway Company in 1969.

High-density rail commuter cars under construction in Montreal car plant in 1969. To enter service in 1970, cars will seat passengers on two levels.

The Canadian in the Rockies. In 1969, CP Rail took steps to have passenger train services reviewed by the Canadian Transport Commission in accordance with the National Transportation Act.

CP Rail potash cars at Saskatchewan mine site. In 1969, volume increases were achieved in commodities including potash, liquefied petroleum gas, lumber, newsprint, vehicle parts and trucks, piggyback and pool car traffic.

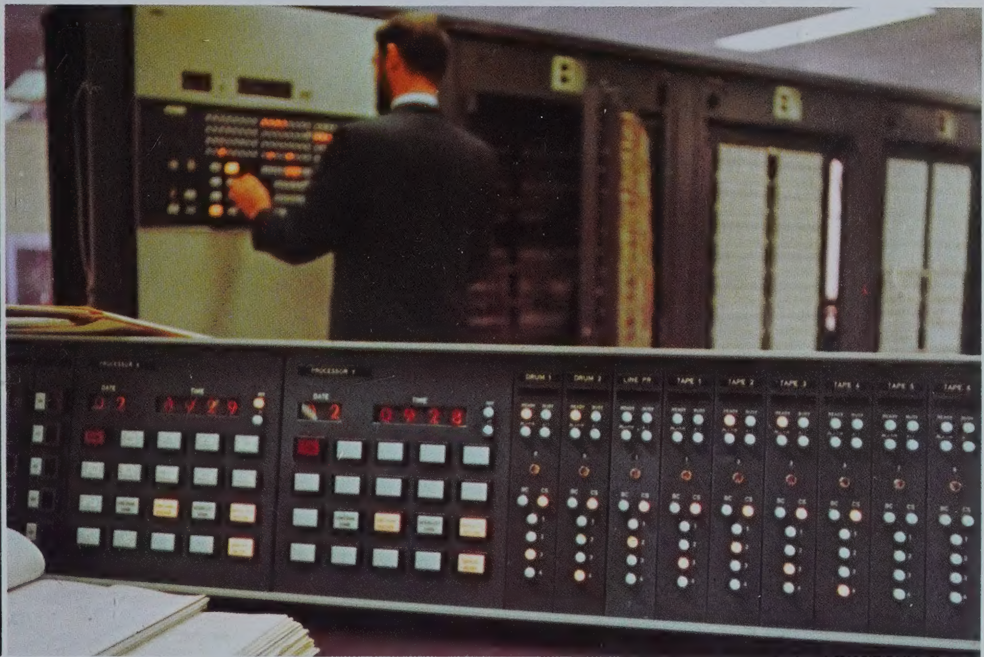
All-Jet Fleet
CP Air reached a corporate milestone in 1969 when, for the first time, all its scheduled services were being operated with jet aircraft. The all-jet fleet consists of seven standard DC-8's, four DC-8-63 "Spacemasters", and seven Boeing 737's. On order are four Boeing 727 tri-jet aircraft, two to be delivered in March, 1970, and two in the Spring of 1971. Three delivery positions for the Boeing 2707 supersonic airliner have been retained. A detailed evaluation of the suitability of the new wide-bodied jets to the company's route pattern is being made.

New Rail Equipment for Better Service
The new trends in rail transportation requirements are reflected in the addition of nearly 1,700 freight cars to the fleet in 1969. Apart from the special equipment ordered for coal and container traffic, these included temperature-controlled mechanical refrigerator cars to provide for improved handling of meat and frozen foods; cushion underframe box cars to modernize further the newsprint fleet; new units of various types for products of the automotive industry; gondolas to carry the expanding output of the steel industry; and wood-chip cars to bring a new measure of efficiency to the movement of that raw material. To protect the needs of the important potash industry in Western Canada large numbers of covered hoppers were purchased and short-term lease arrangements were entered into for the use of additional hoppers during peak shipping periods. Specially designed covered hopper type cars were acquired for the transportation of nickel concentrates in slurry form.

Motive power is being augmented by the purchase of 44 new 3,600 horsepower diesel units for operating high-speed freight services. By the end of 1969, eleven units had been delivered and were in service. Another unit on order for delivery in 1970 is a builder's prototype of 4,000 horsepower, which will be the most powerful single-engine diesel locomotive on Canadian railroads. It is to be evaluated completely to determine whether

Engine block of 3,600 horsepower diesel locomotive during manufacture. In 1969, CP Rail ordered 80 new diesels worth $30 million to augment its locomotive fleet.

New CP Telecommunications message switching computer undergoes tests in 1969 prior to installation. Computerized switching techniques permit fast flow of telecommunications traffic.



such units should be ordered in number for either general or specialized services. The 29 diesels ordered for the unit coal trains are 3,000 horsepower units and thirteen of these had been delivered by the end of 1969. Another eight 3,000 horsepower units purchased in 1968 are being released from main line freight service and adapted for use in the unit coal trains.

Facilities for Improved Efficiency

The new operations centre of CP Air at Vancouver International Airport was completed and partially occupied in 1969. This modern building contains completely up-to-date maintenance and office facilities and provides sufficient space for possible expansion. The hangar can accommodate the largest commercial aircraft now flying or proposed and is expected to meet the company's needs for many years.

Two large new terminals for CP Express went into operation in Montreal and Toronto. It is expected that in 1970 the increasing flow of consolidated loads in containers will be handled through these new terminals and that they will produce further increases in operating efficiency. Progress was made during the year in upgrading the Express motor vehicle and trailer fleet. A new CP Transport terminal was opened at Kelowna, B.C. and three others now under construction at Kamloops, B.C., Lethbridge, Alberta and Victoria, B.C., will be opened early in 1970.

Marathon Builds Airport Facilities

Marathon Realty Company is participating in the development of new ground facilities at airports through its 50% interest in Marathon Aviation Terminals Limited, one of the largest companies in Canada specializing in this field. By the year end construction was nearing completion at Montreal International Airport of a most modern flight kitchen for CP Hotels Limited, which plans to expand its provision of in-flight meals to other airlines in addition to CP Air. Marathon Aviation also has under way at the Montreal airport a cargo building and another flight kitchen.

Air Service Changes

CP Air expanded its services during the year with the addition in April of a second daily flight between Vancouver and San Francisco and the increase to four daily flights on the transcontinental route from the previous two. In June a fifth daily transcontinental flight, providing non-stop service between Calgary and Toronto, was added.

In Western Canada the Okanagan, Cariboo and Sandspit services were relinquished in accordance with the air policy of the Government. Service to New Zealand was also discontinued.

Trucking Routes Added

Route coverage by CP Transport was increased during the year through purchases of operations between Yorkton, Saskatchewan, and Flin Flon and The Pas, Manitoba, and between Cochrane, Ontario and the Manitoba border. The bulk, heavy hauling and contract division continued its rapid growth.

The international services division of Smithsons Holdings, comprising international forwarding and container operations, warehousing and customs brokerage expanded further in 1969.

New CP Express terminal, one of two opened in 1969 at Toronto and Montreal to speed sorting and transfer of express traffic.

CP Transport "pressure-flow" trailer unit unloads cement at dam site on the Columbia River in British Columbia. Movement typifies increasing commodities moved in 1969 by combination of truck and rail.

Banff Springs Open Year-Round

With its re-opening on December 5 for the winter season, Banff Springs Hotel began a new policy of year-round operation. The long season and favorable snow conditions make Banff an ideal ski resort and this, together with the growing number of conventions and business meetings being held away from city centres at all seasons of the year, creates favorable opportunities for attracting new business to the hotel. A program of improvement and modernization was implemented to prepare the hotel for all-season operation.

CP Telecommunications

CP Telecommunications is concentrating on meeting the growing demand for telex, broadband and private wire services and is enlarging its capacity in these areas. To meet customer demand for computer switched services a computer has been installed which will go into service early in 1970. The initial application is to switch a country-wide teletype network for the Department of Transport for air traffic control and operations. Use of the computer for other services is also being developed.

A joint program with Canadian National of plant consolidation, with a view to reducing maintenance expense, was begun and a considerable number of consolidations is expected to take place during 1970.

"Empress" Operations Curtailed

In the light of operating results for 1969 and forecasts for 1970, a decision was taken after the close of the year to withdraw the "Empress of England" from service and subsequently the vessel was sold. CP Ships will now concentrate its full passenger marketing and promotion efforts on the more modern "Empress of Canada", which will continue to operate on the Caribbean cruises in the winter and on the North Atlantic in the summer.

To prepare for the eventual replacement by container services of its conventional freight ships, the Company sold the "Beaverash" late in 1969. Future profitable employment of the "Beaverelm", "Beaverpine" and "Beaverfir" is being explored.

Giant gantry crane at Rotterdam, The Netherlands, unloads CP Ships container. Approximately 2,000 new containers were ordered in 1969 to augment CP Ships North Atlantic freight services.

Keel section of the first of three new 16,000 DWT containerships being built for CP Ships at Birkenhead, Eng., shipyard. First ship will enter service in 1970 between Europe, the United Kingdom and Canada.

CP Air DC-8 jet airliner over new passenger terminal at Vancouver, B.C. CP Air fleet became all-jet in 1969 with delivery of the last of seven new Boeing 737 short/medium range aircraft.

Jet engine overhaul in new CP Air $24 million operations centre at Vancouver completed in 1969. Structure has been designed to handle the largest commercial aircraft now flying or proposed.

Rail Passenger Services
During the year the Company took steps to have its passenger services reviewed by the Canadian Transport Commission in accordance with the terms of the National Transportation Act. The Commission's judgment establishing its costing regulations, which are basic to the determination of branch line and passenger losses, was appealed by the Company to the Supreme Court of Canada. The Court has not yet heard the appeal.

Rail Marketing and Price Policies
Anticipating new opportunities to develop flexible pricing strategies and innovative transportation systems, CP Rail completed a major reorganization of its marketing and sales activities in 1969. The new organization gives greater responsibility to regional officers for the planning and carrying through of marketing and sales effort.

To strengthen its competitive position, CP Rail continued to expand its use of trainload, multiple car, annual volume, directional and intermodal rates. The trend will be more and more towards pricing that will encourage increased utilization of fixed plant and equipment, the key to lower costs. Shippers who assist in achieving this object will enjoy lower rates. Thus pricing incentives will encourage heavier loading of equipment, regular patronage and rapid turnaround at terminals. High cost terminal operations will be avoided when possible through the development of container and intermodal services.

West block of Palliser Square development in downtown Calgary opened in 1969 by Marathon Realty Co. Ltd. Project is one of several Marathon has planned or underway in Canadian urban centres.

Panarctic Oils Ltd. exploration in the Canadian Arctic during 1969. Central-Del Rio Oils and Cominco each hold a nine percent interest in Panarctic Oils.

Surveyor works on Fording Coal Limited property in British Columbia. Mine will begin exporting coal to Japan in 1972 under contract to supply 45 million tons of coking coal over 15 year period.

CP Rail Serves New Industries

During 1969 there were 222 new manufacturing, warehousing and distributing facilities which located on or adjacent to CP Rail lines, and a further 277 industries either relocated on CP lines or expanded on-line facilities. These additions represented an investment by their owners of some $520 million and they have a potential of about 3¼ million tons of traffic. New trackage or extensions were built to serve 100 of these industries.

Labour Relations

The number of employees engaged in all operations – transportation, telecommunications, hotels and other activities – averaged 59,700 in 1969, and total payroll amounted to $423 million.

Two-year contracts with the non-operating rail employees and with the trainmen went into effect January 1, 1969 providing generally for an increase of 6.5% in wages in each of the years 1969 and 1970, increased paid holidays, and for assumption by the Company of the full cost of improved health and welfare benefits. In June a similar settlement was reached with sleeping car conductors and dining car staffs. Negotiations began on February 3, 1970 with representatives of the Company's 1,700 locomotive engineers on a new contract to replace the one expiring March 15, 1970. The contract covering some 1,000 locomotive firemen is subject to notice on July 1, 1970.

Six of CP Air's nine labour contracts expired in 1969 and two agreements which expired in 1968 were renegotiated. Agreements have been reached with all but two of the organized groups and negotiations with them are continuing.

Customers and Staff

The Directors take pleasure in extending their thanks to the thousands of people within Canada and abroad who gave Canadian Pacific the opportunity to serve them or their companies. The Directors also record their sincere appreciation of the fine efforts of officers and employees.

For the Directors,

President and Chief Executive Officer

Chairman of the Company

Montreal, March 9, 1970

1969

Canadian Pacific Railway Company Financial Report

Railway Earnings

Net railway earnings amounted to $34.6 million, a decrease of $6.6 million compared with 1968. The ratio of net earnings to railway revenues, at 6.0%, was below the 7.3% of the previous year. The rate of return on the net investment in railroad property was down from 3.2% in 1968 to 2.6%.

Railway revenues, at $580.0 million, were $17.7 million or 3% higher than in 1968. These included $33.1 million of "normal payment" received from the Government of Canada, which was $5.6 million less than in 1968 in accordance with provisions of the National Transportation Act.

Freight revenue, at $504.4 million, was $25.0 million higher than in 1968. Nearly three-quarters of this increase was achieved in the first half of the year.

Freight rates were increased during the year on a selective basis to help counteract the effect on revenues of the decrease in the Government payment and of rises in labour and material costs. Rates for non-competitive, competitive and Plan II piggyback traffic were increased by varying percentages on April 1, and on September 1 a surcharge was applied to normal and competitive rated traffic. In July many agreed charges were raised, and in November increases approved for U.S. railroads were applied on traffic moving between Canada and the United States. Effective September 23, when the Federal Government removed the freeze on normal-rated traffic to, from and within the Atlantic Provinces, those rates, which had not been increased since 1958, were increased but remained below the level of similar rates elsewhere in Canada.

There was a significant increase in revenue from potash, owing to production from new mines and increased demand. Substantial increases were also reported for newsprint and related commodities due to improved markets and the absence of major strikes which had plagued 1968. Lumber shipments were up significantly in the early months of the year, more than offsetting declines in the last half. Other important increases were reported for liquefied petroleum gas, vehicle parts and trucks, pool cars and piggyback. Among the declines reported, wheat was a principal item, owing to continued shrinkage of Canadian export markets due to the worldwide wheat glut. This in turn had an adverse effect on fertilizer sales in Western Canada, and hence on fertilizer shipments other than potash. A substantial decrease in copper-nickel ores and concentrates was reported because of strikes. Other declines were in cement, livestock and automobiles.

Passenger service revenue, at $21.9 million, was marginally higher than in 1968 owing to business diverted to the railway during airline strikes. Late in the year some passenger trains were discontinued, mainly between Toronto-Windsor, Toronto-Peterboro, and Calgary-Edmonton.

Railway Expenses

Railway expenses including income taxes, at $545.4 million, were $24.3 million, or 5%, higher than in 1968. Higher wage rates added approximately $17.4 million to the year's expenses and increased health and welfare benefit costs accounted for an addition of $2.8 million. Under union agreements with the non-operating employees and the trainmen, the Company assumed 100% of the basic cost of such benefits beginning January 1, 1969.

Payroll charged railway operating expenses increased from $262.5 million in 1968 to $272.9 million in 1969. The total of man-hours paid for decreased from 90.1 million to 88.6 million.

Road and equipment maintenance expenses amounted to $203.9 million, an increase of $4.7 million, or 2%. They represented 35.2% of railway revenues. Snow removal expenses increased by $1.0 million due to severe winter conditions in the first quarter of the year. Repair costs for diesel locomotives were up substantially; freight car repair costs were slightly higher. There were no changes in depreciation rates in 1969.

Transportation expenses for the year totalled $221.5 million, $19.2 million, or 10%, more than in 1968. The ratio to revenues went up from 36.0% in 1968 to 38.2%. Not only were wage costs higher, but diesel fuel prices were up because of added taxes, and the prices of other materials and supplies also rose. Freight train performance improved as indicated by a 4% increase in gross ton miles per freight train hour.

Other Income

Income from telecommunications, railway-owned steamship operations and from other sources and investments, excluding Canadian Pacific Investments Limited and Canadian Pacific Air Lines, Limited, amounted to $19.2 million after provision for income taxes of $6.8 million. The comparable amount in 1968 was $23.4 million, after income taxes of $7.1 million. Net earnings from operations given below are in all cases before income taxes.

Telecommunication services generated net earnings of $5.0 million, compared with $5.1 million in the previous year. Operating revenues were up 10%, reflecting continued growth in telex, broadband and private wire services. Despite savings realized in the area of public telegraph service, operating expenses were up 13%. This was largely a result of higher wage and employee benefit costs, increased payments for leased facilities and increased depreciation.

Steamships owned by the Company, of which four are ocean vessels, incurred a net loss of $1.1 million for the year, compared with earnings of $297,000 in 1968. The loss was attributable principally to cruising operations of the "Empress" ships.

Income from miscellaneous sources amounted to $4.3 million, a decrease of $3.1 million from 1968. This decrease is accounted for by reductions of $2.0 million in proceeds from sales of lands and townsites and of $1.0 million in the exchange account.

Railway-owned hotels had combined net earnings of $194,000, a decrease of $94,000. The main reason for the reduction was the non-recurring ex-

pense connected with the opening of the Banff Springs Hotel in December for year-round occupancy.

Income from subsidiary companies, excluding CPI and CPA, amounted to $7.8 million, an increase of $979,000.

Dividend income amounted to $5.3 million, a decrease of $630,000 from 1968.

Dividends received from Soo Line Railroad Company, at $1.5 million, were $1.2 million less than in the previous year. Consolidated net income of the Soo Line for the year decreased $858,000. Although improved economic conditions and increases in freight rates produced a substantial increase in that company's revenues, this was more than offset by the effects on expenses of severe winter operating conditions.

Dividends from Canadian Pacific (Bermuda) Limited increased by $597,000 to $1.7 million. Canadian Pacific Transport dividends, at $1.7 million, were unchanged from 1968.

Provision for impairment of investment in subsidiary companies in 1969 resulted in a net addition to other income of $1.6 million, in contrast to a charge against income of $6,000 in 1968. This was mainly due to reversal of previous provision for Smithsons Holdings Limited and to a decrease, as compared with 1968, in the provision required for Canadian Pacific Steamships Limited.

Interest from subsidiaries amounted to $903,000, of which $895,000 was from Soo Line Railroad Company, the same amount as in the previous year.

Income from other investments amounted to $9.9 million in 1969, a decrease of $849,000. Decreases in interest on temporary investments and in mortgage interest were partially offset by an increase in bank interest.

Fixed Charges

Fixed charges, at $22.4 million, were $506,000 higher than in 1968. Increases in interest on new borrowings in 1969 and 1968 were partially offset by reductions in interest on short term loans and on declining balances of prior years' equipment trust issues and term loan.

Capital Expenditures

Capital expenditures of Canadian Pacific Railway Company totalled $113.9 million for the year. Of this, $41.6 million was for new locomotives and freight cars and $50.4 million for railway track, signalling systems, bridges, buildings and other road property. A total of $9.4 million was for telecommunications, $2.8 million for a new Bay of Fundy steamship, $2.1 million for aircraft and $1.8 million for highway vehicles.

New Financing

On June 15, 1969 $30 million principal amount of Equipment Trust Certificates was issued, guaranteed as to principal and interest by the Company. This issue, designated as Series "T", is in United States currency, and bears interest at 8¼% per annum. It matures June 15, 1984 and is subject to a sinking fund provision by which 1/15 of the issue is redeemed on each June 15 commencing in 1970.

On July 15, 1969 agreements were completed with five Canadian banks under which the Company borrowed an amount of $25 million in Canadian funds. The loans bear interest at the prime rate of each bank plus ½ of 1% and are repayable in equal semi-annual instalments from January 15, 1970 to July 15, 1974.

Twenty Year Collateral Trust Bonds, dated November 1, 1969, bearing interest at 8¾% to and including October 31, 1974 and 8½% thereafter were issued and sold in principal amount of $25 million and were secured by a pledge of $50 million principal amount of Consolidated Debenture Stock. The holder of a bond has the right to elect that the Company prepay the principal amount of such bond on November 1, 1974.

Pensions and Other Benefits

Pension expenses of the Company totalled $36.6 million in 1969, $1.2 million more than in 1968. These included a contribution of $7.7 million to the Pension Trust Fund. The portion of such contributions not subject to current withdrawal had accumulated with income to $172.7 million at year end.

The number on the pension payroll increased by 419 to 21,505 at the end of 1969.

Payments made by the Company in respect of the employees' health and welfare plan, to the job security fund and for unemployment insurance amounted to $9.9 million, compared with $6.4 million in 1968.

Directorate

It is with deep regret that the Directors record the loss by death, in August, 1969, of Mr. H. G. Welsford, M.B.E. He had been a Director since 1955 and a Member of the Executive Committee of the Board since 1958.

Mr. W. J. Bennett, O.B.E., was appointed a Director to succeed Mr. Welsford.

Effective December 31, 1969, Messrs. F. Philippe Brais, C.B.E., Q.C. and Howard C. Sheperd retired from the Board. The Directors desire to record their warm appreciation for the notable contribution to the affairs of the Company that has been made by these retiring members during the long period of their association with the Board.

Mr. Claude Pratte, Q.C., and Mr. M. B. Steinkopf, M.B.E., Q.C., were appointed Directors to succeed Messrs. Brais and Sheperd respectively.

Stock Holdings

The number of registered holdings of the capital stock of the Company at December 31, 1969 was 69,589.

The distribution by countries of total voting rights of the Ordinary and Preference stocks at the same date was as follows:

Canada	63.89%
United States	16.03
United Kingdom and other British	13.52
Other Countries	6.56
	100.00%

Statement of Income for the year ended December 31

	1969	1968
	(in thousands)	
Income from Railway and Miscellaneous Sources		
Railway revenues (Note 3)	**$580,018**	$562,345
Railway expenses	**526,283**	492,285
Income taxes (Note 4)	**19,100**	28,800
	545,383	521,085
Railway earnings after income taxes	**34,635**	41,260
Other income (Note 5)	**25,967**	30,506
Income taxes (Note 4)	**6,770**	7,073
Other income after income taxes	**19,197**	23,433
Income before fixed charges	**53,832**	64,693
Fixed charges		
Interest and amortization of discount on long term debt and debenture stock	**18,149**	16,844
Other interest	**886**	1,563
Rent for leased roads	**3,390**	3,512
	22,425	21,919
Income from Railway and Miscellaneous Sources	**31,407**	42,774
Income (being dividends received) from		
Canadian Pacific Investments Limited	**22,932**	21,499
Canadian Pacific Air Lines, Limited	**1,433**	1,584
Income before Extraordinary Items	**55,772**	65,857
Extraordinary items (Note 6)	**—**	(8,100)
Income for the Year (Note 7)	**$ 55,772**	$ 57,757

Statement of Dividends Paid

On Preference stock – 4%	**$ 3,329**	$ 3,326
On Ordinary stock		
From railway and miscellaneous sources (Per share – 1969 – $1.50; 1968 – $1.50)	**21,499**	21,499
Flow-through of dividends from		
Canadian Pacific Investments Limited (Per share – 1969 – $1.60; 1968 – $1.50)	**22,932**	21,499
Canadian Pacific Air Lines, Limited (Per share – 1969 – $0.10; 1968 – nil)	**1,433**	—
Total Ordinary (Per share – 1969 – $3.20; 1968 – $3.00)	**45,864**	42,998
Total Dividends	**$ 49,193**	$ 46,324

See Notes to Financial Statements

Statement of Retained Income for the year ended December 31

	1969	1968 (in thousands)
Balance, January 1		
As previously reported	**$740,921**	$757,711
Deduct:		
Income tax settlement for prior years in respect of a subsidiary, Esquimalt and Nanaimo Railway Company	**—**	28,223
As restated	**740,921**	729,488
Add:		
Income for the year	**55,772**	57,757
Net proceeds from sale of Esquimalt and Nanaimo Railway Company timberlands to Pacific Logging Company Limited, a subsidiary of Canadian Pacific Investments Limited	**11,251**	—
	807,944	787,245
Deduct:		
Dividends		
Preference stock	**3,329**	3,326
Ordinary stock	**45,864**	42,998
	49,193	46,324
Balance, December 31	**$758,751**	$740,921

Statement of Source and Application of Funds for the year ended December 31

	1969	1968 (in thousands)
Source of Funds		
Net income	**$ 55,772**	$ 57,757
Depreciation	**81,387**	95,455
Deferred income taxes	**4,900**	2,600
Provision for impairment of investments	**(1,604)**	10
Funds from operations	**140,455**	155,822
Sales of investments	**1,390**	4,641
Net proceeds from sale of Esquimalt and Nanaimo Railway Company timberlands to Pacific Logging Company Limited, a subsidiary of Canadian Pacific Investments Limited	**11,251**	—
Salvage from retired property	**8,287**	9,726
Issuance of long term debt	**83,075**	23,627
	$244,458	$193,816
Application of Funds		
Purchase of investments	**$ 18,774**	$ 11,315
Retirement of long term debt	**17,442**	37,991
Additions to properties	**113,877**	124,795
Dividends declared	**49,193**	46,324
Deposits	**10,147**	(40,643)
Prior years' income tax settlement	**—**	28,223
Sundries (net)	**2,156**	(1,655)
Increase in working capital	**32,869**	(12,534)
	$244,458	$193,816

Note – This statement does not reflect the non-cash adjustments arising from the change in accounting for aircraft leased to Canadian Pacific Air Lines, Limited, as described in Note 10 of the notes to financial statements.

See Notes to Financial Statements

Balance Sheet, December 31	1969	1968 (in thousands)
Assets		
Current Assets		
Cash and temporary investments, at cost (approximates market)	**$ 43,237**	$ 74,802
Dividend receivable from Canadian Pacific Investments Limited	**11,466**	10,749
Accounts receivable	**106,964**	93,242
Material and supplies, at cost or less	**41,981**	38,980
	203,648	217,773
Other Assets		
Deposits	**14,787**	4,640
Unamortized discount on long term debt	**2,066**	1,499
Other deferred charges	**15,995**	9,712
Deferred aircraft lease payments (Note 10)	**59,529**	56,365
	92,377	72,216
Insurance Fund, at cost (approximate market 1969 – $4,981,000; 1968 – $5,096,000)	**6,445**	6,186
Investments (Note 1)		
Subsidiary companies		
Canadian Pacific Investments Limited	**321,606**	321,606
Canadian Pacific Air Lines, Limited	**22,750**	22,750
Other subsidiary companies (including advances 1969 – $1,176,000; 1968 – $1,092,000) (Note 8)	**133,413**	116,578
Other investments (Note 9)	**41,158**	39,005
	518,927	499,939
Properties, at cost (Note 10)		
Railway	**2,344,248**	2,293,107
Telecommunications	**131,062**	122,660
Aircraft	**—**	10,497
Steamships	**64,302**	63,013
Hotels	**26,246**	25,581
Other	**17,817**	17,988
	2,583,675	2,532,846
Less: Accumulated depreciation	**1,205,457**	1,171,247
	1,378,218	1,361,599
	$2,199,615	$2,157,713

See Notes to Financial Statements

	1969	1968 (in thousands)
Liabilities		
Current Liabilities		
Accounts payable and wages accrued	**$ 84,564**	$ 85,972
Deposits by affiliated companies (net)	**1,136**	12,118
Income and other taxes payable	**223**	35,588
Dividends payable	**25,169**	23,694
Long term debt maturing within one year	**13,442**	29,246
Other current liabilities	**52,638**	38,600
	177,172	225,218
Deferred Liabilities	**9,849**	8,737
Deferred Income Taxes	**131,200**	126,300
Insurance Reserve	**6,445**	6,186
Long Term Debt (Note 11)	**207,579**	141,946
Perpetual 4% Consolidated Debenture Stock (Note 12)	**292,549**	292,549
Shareholders' Equity		
Preference stock – 4% non-cumulative		
Authorized — an amount not exceeding one-half the aggregate amount of Ordinary stock outstanding		
Issued — £3,271,505 in amounts of £1 and multiples thereof (1968 – £3,273,080)	**15,921**	15,929
$74,795,916 in amounts of $3 and multiples thereof (1968 – $74,791,191)	**74,796**	74,791
	90,717	90,720
Ordinary stock		
Authorized — 20,000,000 shares of a par value of $25 each		
Issued — 14,332,456 shares	**358,311**	358,311
Premium on stock	**85,069**	85,066
Donations and grants	**81,973**	81,759
Retained income	**758,751**	740,921
	1,374,821	1,356,777
	$2,199,615	$2,157,713

F. A. Rutherford, Vice-President and Comptroller

Auditors' Report to the Shareholders of Canadian Pacific Railway Company

We have examined the balance sheet of Canadian Pacific Railway Company as at December 31, 1969 and the statements of income, retained income and source and application of funds for the year then ended (as shown on pages 14 to 21 inclusive). Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the Company as at December 31, 1969 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving retroactive effect to the accounting changes as explained in the first paragraph of Note 7 and in Note 10 to the financial statements.

Price Waterhouse & Co.,
Chartered Accountants

Montreal, March 6, 1970

Notes to Financial Statements

Note 1
Investments

Owing to the statutory regulation of a substantial portion of its interests, the Company considers that consolidation is not appropriate and that financial information on its major subsidiaries can best be provided by furnishing their financial statements. Accordingly, financial statements of Canadian Pacific Investments Limited, in which the Company held 99.84% of the common shares (90.84% of total voting shares) at December 31, 1969, (99.97% and 90.89% respectively at December 31, 1968), and of Canadian Pacific Air Lines, Limited, which is wholly-owned, are presented on pages 34 to 40 and 26 to 30 respectively.

It is the practice of the Company to carry investments in subsidiary and 50% owned companies at cost less provision for impairment in respect of companies with deficits. Profits are reflected in income only to the extent of dividends received or of reductions of previous provisions for impairment. Other investments are carried at cost.

The Company's equity in the net income of all subsidiaries for 1969 was $51,699,000 (1968 – $48,819,000). The income statement of the Company included $31,275,000 (1968 – $29,013,000) from subsidiaries. Its equity in the retained earnings of subsidiaries at December 31, 1969, since date of acquisition, is $181,277,000 (1968 – $157,510,000).

Note 2
Foreign Exchange

Items in foreign currencies have been translated into Canadian dollars at current rates except for properties and related depreciation, investments and debenture and capital stocks, for which historical rates have been used. The historical rates used for debenture stock and capital stock are $4.86⅔ to the £1 and par of exchange in the case of United States dollars. Gains or losses on exchange are included in or charged to other income.

Note 3
Railway Revenues

	1969	1968
	(in thousands)	
Freight revenue	**$504,362**	$479,347
Passenger services	**21,869**	21,673
Express	**2,031**	4,429
Other	**18,693**	18,196
Government payments	**33,063**	38,700
	$580,018	$562,345

Note 4
Income Taxes

The provision for income taxes reflected in income before extraordinary items, in the total amount of $25,870,000 (1968 – $35,873,000), includes $4,900,000 (1968 – $10,000,000) in respect of deferred income taxes. The extraordinary item in 1968 is net of an amount of $7,400,000 charged to deferred income taxes.

Note 5
Other Income

	1969	1968
	(in thousands)	
Net earnings from telecommunications	**$ 5,013**	$ 5,122
Net earnings from steamships	**(1,138)**	297
Income from miscellaneous sources	**4,342**	7,467
	8,217	12,886
Income from subsidiary companies excluding Canadian Pacific Investments Limited and Canadian Pacific Air Lines, Limited		
Dividends	**5,306**	5,936
Adjustment of provision for impairment of investments	**1,604**	(6)
	6,910	5,930
Interest	**903**	904
	7,813	6,834
Income from other investments	**9,937**	10,786
Other income	**25,967**	30,506
Income taxes	**6,770**	7,073
Other income after income taxes	**$19,197**	$23,433

Note 6
Extraordinary Items

The extraordinary item in 1968 was a special transfer to accumulated depreciation – steamships in the amount of $8,100,000, after income taxes of $7,400,000.

Note 7
Changes in Reporting of Income

With effect from January 1, 1969, the Company has adopted the recommendations of The Accounting and Auditing Research Committee of The Canadian Institute of Chartered Accountants with respect to the reporting of extraordinary items of income and expense and of adjustments relating to prior years. Consequently, extraordinary items have been shown separately and opening retained income restated to reflect prior period adjustments. Effect has also been given to the inclusion in income from railway and miscellaneous sources of various items, generally of a non-recurring nature, formerly added to or deducted from retained income, which in 1968 amounted to a net credit of $4,577,000.

Dividends from Canadian Pacific Investments Limited, which, under the present policy of the Company, flow through as additional dividends on Ordinary stock, are now reflected in the statement of income. Dividends from Canadian Pacific Air Lines, Limited, heretofore included in other income, are now subject to the same flow-through policy and shown as a separate item in the statement of income.

Note 8
Investments–
Other Subsidiary Companies

	Cost — less provision for impairment (in thousands)	Percentage of voting power
Canadian Pacific (Bermuda) Limited	$ 45,122	100
Canadian Pacific Express Company	4,250	100
Canadian Pacific Steamships, Limited	5,082	100
Canadian Pacific Transport Company, Limited	6,000	100
Smith Transport, Limited	12,000	100
Smithsons Holdings Limited	14,731	100
Soo Line Railroad Company	43,071	56
Miscellaneous	3,157	
	$133,413	

Note 9
Other Investments

	Cost — less provision for impairment (in thousands)	Percentage of voting power
Northern Alberta Railways Company	$25,340	50
The Toronto, Hamilton and Buffalo Railway Company	512	27
The Toronto Terminals Railway Company	10,238	50
	36,090	
Deferred payments and mortgages on properties	3,841	
Miscellaneous	1,227	
	$41,158	

Note 10
Properties

Depreciation charged to income before extraordinary items amounted to $73,431,000 in 1969 (1968 – $73,135,000) and was calculated on the straight-line basis at rates based upon the estimated service lives of depreciable property. For railway property, the rates used are as authorized by the Canadian Transport Commission.

With effect from December 31, 1969, the Company has changed its method of accounting for eleven DC-8 aircraft and related equipment which are leased, with an option to purchase, to Canadian Pacific Air Lines, Limited and which were formerly included in properties. Payments due under the leases (including option price, but excluding interest) are now recorded under other assets as deferred aircraft lease payments ($59,529,000), with the amount due in 1970 ($8,593,000) included in current assets. The excess of the option price over the residual value of the aircraft ($2,650,000) is reflected in the balance sheet under deferred liabilities until such time as the options to purchase are exercised. This change does not affect net income, and the 1968 accounts have been restated on a comparable basis.

Note 11
Long Term Debt

	Rate	Year of issue	Year of maturity	Principal outstanding **1969** (in thousands)	1968
Collateral Trust Bonds (a)					
Convertible seventeen year (b)	4 %	1952	1969	**$ —**	$ 22,169
Convertible twenty year (b)	3⅛ %	1950	1970	**363**	363
Eighteen year	3¾ %	1954	1972	**18,868**	19,566
Thirty year	3½ %	1944	1974	**7,695**	7,623
Twenty-five year	5 %	1958	1983	**37,401**	37,561
Twenty year (c)	8¾-8½ %	1969	1989	**25,000**	—
				89,327	87,282
Equipment Trust Certificates					
Series "P"	5 %	1966	1970-81	**19,816**	21,417
Series "R"	6⅜ %	1967	1982	**21,726**	23,202
Series "S"	6.9 %	1968	1983	**18,752**	21,291
Series "T"	8¼ %	1969	1984	**32,400**	—
				92,694	65,910
Term loan	7 %	1967	1973	**14,000**	18,000
Term loans	Prime+½ %	1969	1974	**25,000**	—
				39,000	18,000
				221,021	171,192
Less: Maturities and sinking fund requirements included in current liabilities				**13,442**	29,246
				$207,579	$141,946

Annual maturities and sinking fund requirements for each of the five years following December 31, 1969 are as follows:

	(in thousands)
1970	$13,442
1971	16,205
1972	35,073
1973	14,205
1974	19,900 (d)

(a) Secured by pledge of Perpetual 4% Consolidated Debenture Stock aggregating, in principal amount, $125,796,000 at December 31, 1969 (1968 – $103,428,000).
(b) Conversion privilege terminated.
(c) Subject to prepayment on November 1, 1974 at the holder's option. Subject thereafter to an annual mandatory sinking fund of 3% of the principal outstanding at May 1, 1975, with an optional non-cumulative sinking fund of a further 3%.
(d) Excluding the $25,000,000 Twenty Year Collateral Trust Bonds, subject to prepayment in 1974 at the holder's option.

Note 12
Perpetual 4% Consolidated Debenture Stock

	Sterling	United States currency	Canadian currency	Total (in thousands)
Issued	£46,757	$72,838	$117,958	$418,345
Less: Pledged as collateral	—	7,838	117,958	125,796
	£46,757	$65,000	$ —	$292,549

Note 13
Pension Plan

The Pension Benefits Standards Act (Canada) requires pension plans subject to it to make provision for funding in accordance with prescribed standards. The question as to the application of the Act to the Company's pension plan has not as yet been settled. Preliminary actuarial reports indicate that if the plan were to be funded under the Act costs associated with such funding would not significantly affect net income.

Note 14
Contingent Liabilities and Commitments

The Company is contingently liable to purchase promissory notes of Canadian Pacific Air Lines, Limited in the amount of U.S. $9,675,000 held by the Export-Import Bank of the United States, and will be similarly liable to purchase notes covering a further loan of U.S. $5,625,000 negotiated with the same bank.

The Company is contingently liable under a guarantee of a bank loan negotiated by Canadian Pacific Steamships, Limited in the amount of £2,665,000.

The Company had placed orders or was otherwise committed to capital expenditures in the amount of $87,175,000 at December 31, 1969 (1968 – $19,574,000).

Annual commitments for rent for leased roads amounted to approximately $3,400,000 at December 31, 1969 (1968 – $3,500,000).

Commitments for rent for freight cars leased for varying periods through to 1984 amounted to approximately $48,700,000 at December 31, 1969 (1968 – through to 1983, $24,000,000).

Five-year summary	1965	1966	1967	1968	**1969**
	Figures in millions, except amounts per share				
Railway revenues	$528.0	$553.8	$560.7	$562.3	**$580.0**
Railway earnings after income taxes	45.1	50.2	39.6	41.3	**34.6**
Other income after income taxes	20.6	17.9	11.9	23.4	**19.2**
Fixed charges	16.4	20.0	18.6	21.9	**22.4**
Income from railway and miscellaneous sources	49.3	48.1	32.9	42.8	**31.4**
Income (being dividends received) from					
Canadian Pacific Investments Limited	20.1	20.1	20.1	21.5	**23.0**
Canadian Pacific Air Lines, Limited	—	—	4.1	1.6	**1.4**
Income before extraordinary items	69.4	68.2	57.1	65.9	**55.8**
Extraordinary items	—	—	2.9	(8.1)	**—**
Income for the Year	69.4	68.2	60.0	57.8	**55.8**
Dividends Paid					
On Preference stock – 4%	$ 3.4	$ 3.4	$ 3.4	$ 3.3	**$ 3.3**
On Ordinary stock					
From railway and miscellaneous sources	$ 17.9	$ 21.5	$ 21.5	$ 21.5	**$ 21.5**
Flow-through from Canadian Pacific Investments Limited	20.1	20.1	20.1	21.5	**23.0**
Flow-through from Canadian Pacific Air Lines, Limited	—	—	—	—	**1.4**
Total Ordinary	$ 38.0	$ 41.6	$ 41.6	$ 43.0	**$ 45.9**
Per Ordinary share					
From railway and miscellaneous sources	$ 1.25	$ 1.50	$ 1.50	$ 1.50	**$ 1.50**
Flow-through from Canadian Pacific Investments Limited	1.40	1.40	1.40	1.50	**1.60**
Flow-through from Canadian Pacific Air Lines, Limited	—	—	—	—	**0.10**
	$ 2.65	$ 2.90	$ 2.90	$ 3.00	**$ 3.20**

1969

Canadian Pacific Air Lines, Limited

Financial Report

Board of Directors and Officers

Directors

Charles R. Bronfman,
President,
The House of Seagram Ltd., Montreal

N. R. Crump,
Chairman of the Company,
Canadian Pacific Railway Company, Montreal

John C. Gilmer,
President and Chief Executive Officer,
Canadian Pacific Air Lines, Limited, Vancouver

John B. Hamilton, Q.C.,
Senior Partner,
Hamilton, Torrance, Stinson, Campbell,
Nobbs and Woods, Toronto

Allard Jiskoot,
Partner,
Pierson, Heldring & Pierson,
Amsterdam, The Netherlands

The Hon. E. C. Manning,
President,
M and M Systems Research Ltd., Edmonton

Hugh A. Martin,
President,
Western Construction & Engineering
Research Ltd., Vancouver

Jean P. W. Ostiguy,
President,
Morgan, Ostiguy & Hudon, Inc., Montreal

George E. Sharpe,
President,
Sharpe's Limited, Winnipeg

Ian D. Sinclair,
President and Chief Executive Officer,
Canadian Pacific Railway Company, Montreal

Officers

Ian D. Sinclair,
Chairman

John C. Gilmer,
President and Chief Executive Officer

H. D. Cameron,
Vice-President, International Affairs

I. A. Gray,
Vice-President, Administration

G. E. Manning,
Vice-President, Customer Service

C. F. O'Brien,
Vice-President and Comptroller

R. B. Phillips,
Vice-President, Operations

H. B. Renwick,
Vice-President, Marketing and Sales

J. W. H. Crawford,
Treasurer

T. F. Turner,
Secretary

Executive Offices,
1281 West Georgia Street,
Vancouver 105, Canada

Net income of CP Air in 1969 was $3.5 million, compared with $2.4 million in 1968. Although this improvement is gratifying, it must be remembered that considerable additional revenue was obtained due to strikes of competitors. Had it not been for this, net income would have been less than in 1968 despite other revenue increases. This situation reflects the seriousness of the problem now facing the entire airline industry – steadily rising costs on the one hand and diminishing yields on the other. Operating revenues rose 25% to $133.7 million, while operating expenses increased 24% to $122.0 million.

Passenger revenue exceeded $100 million for the first time, increasing 20% to $107.3 million. The number of passengers carried, at 1,277,000, was 23% higher than in 1968. The addition of three more daily Canadian transcontinental flights, making a total of five, accounted for a substantial portion of these increases. International revenue for scheduled services increased at a somewhat greater rate than in 1968, reflecting in part traffic growth due to the second daily flight between Vancouver and San Francisco. An additional weekly flight from Eastern Canada to Mexico in the winter season stimulated traffic on that route significantly. Traffic increased on the North Atlantic route, but at a lower rate than in the previous year mainly because of the introduction of direct competitive service by two other carriers and a significant decrease of emigration from Italy. Traffic on the Orient services showed only a marginal increase, reflecting both a full year of competition from Japan Airlines and some postponement of pleasure travel in 1969 in anticipation of Expo '70 in Japan. Traffic on both the Polar and Canada-Hawaii services also increased, but only slightly, largely owing to greatly increased competition from charter services. The scope of CP Air charter operations was expanded in 1969 and one DC-8-63 aircraft was altered to provide 240 seats specifically for this purpose. The passenger load factor of 52.8% was a significant improvement over the 1968 figure of 50.4%.

Cargo revenue increased to $10.8 million, or 16%, a substantial slowdown in growth rate from 1968 when a 31% increase was experienced. In 1968 weekly cargo flights were operated on the Orient route using equipment chartered from other carriers but such equipment was not available in 1969. Significant increases on the North Atlantic, South Pacific, and Mexico to South America services more than offset the decline on the Orient route.

Mail revenue increased 13% to $7.4 million, largely as a result of mail carried during airline strikes and substantial increases in mail traffic on the Orient and South Pacific routes.

Operating expenses increased 24%, the greater portion of which was directly attributable to the expanded scale of operations, notably on the Canadian transcontinental route and in charter service. Other important contributing factors were substantial general wage increases, increased costs of materials and purchased services, and a sharp increase in depreciation owing to a larger fleet.

Total expenditures for salaries, wages and employee benefits reached $41.5 million in 1969, an increase of 23% from the 1968 total of $33.7 million. At the year end the number of employees totalled 5,012, a 14% increase over the 1968 total of 4,410. The additional personnel were required to handle the increased traffic volume and to service the additional aircraft.

Average daily utilization of the DC-8 aircraft remained at the 1968 level of slightly over 12 hours. In their first full year of operation the Boeing 737 aircraft were utilized 9 hours per day.

Non-operating expenses increased markedly in 1969. Financing the construction of the new Operations Centre and the acquisition of additional aircraft involved significantly greater interest charges.

Statement of Income for the year ended December 31	**1969**	1968 (in thousands)
Operating Revenues		
Passenger	**$107,314**	$ 89,055
Cargo	**10,804**	9,302
Mail	**7,360**	6,514
Charter	**6,102**	267
Other	**2,137**	1,560
	133,717	106,698
Operating Expenses		
Flying operations	**31,170**	26,551
Maintenance	**14,398**	12,629
Passenger service	**15,143**	11,006
Aircraft and traffic servicing	**15,639**	12,787
Sales and promotion	**26,153**	21,961
General and administrative	**7,249**	5,038
Depreciation (Note 1)	**12,288**	8,799
	122,040	98,771
Net Operating Income	**11,677**	7,927
Non-operating Income and (Expense)		
Investment income (Note 5)	**483**	782
Interest on long term debt (Note 1)	**(5,413)**	(3,829)
Gain on disposal of properties (Note 6)	**438**	24
	7,185	4,904
Provision for deferred income taxes	**3,690**	2,529
Net Income	**$ 3,495**	$ 2,375

See Notes to Financial Statements

Statement of Retained Income
for the year ended December 31

	1969	1968
	(in thousands)	
Balance, January 1	**$ 1,538**	$ 747
Add:		
Net income for the year	**3,495**	2,375
	5,033	3,122
Deduct:		
Dividends		
Preference shares	**487**	1,584
Ordinary shares	**946**	—
	1,433	1,584
Balance, December 31	**$ 3,600**	$ 1,538

Statement of Source and Application of Funds
for the year ended December 31

	1969	1968
	(in thousands)	
Source of Funds		
Net income	**$ 3,495**	$ 2,375
Depreciation	**4,332**	1,979
Deferred income taxes	**3,690**	4,455
Funds from operations	**11,517**	8,809
Refundable corporation tax	**—**	391
Agreements for sale	**—**	186
Proceeds from disposal of properties (net)	**781**	37
Proceeds from long term borrowings	**—**	12,362
Decrease in working capital	**16,613**	15,367
	$28,911	$37,152
Application of Funds		
Deposits on aircraft purchases	**$ 3,947**	$ 2,592
Additions to properties	**21,628**	32,976
Reduction of long term debt	**1,903**	—
Dividends paid	**1,433**	1,584
	$28,911	$37,152

Note – This statement does not reflect the non-cash adjustments arising from the change in accounting for leased aircraft, as described in Note 1 to the financial statements.

See Notes to Financial Statements

Balance Sheet, December 31	1969	1968 (in thousands)
Assets		
Current Assets		
Cash	**$ 2,029**	$ 1,215
Deposits with Canadian Pacific Railway Company	**—**	2,777
Accounts receivable	**11,804**	12,870
Income taxes recoverable	**—**	1,917
Material and supplies	**4,574**	2,753
Prepaid expenses	**592**	550
	18,999	22,082
Other Assets		
Deposits on aircraft purchases	**4,110**	2,592
Agreements for sale and sundry investments	**1,032**	100
	5,142	2,692
Properties, at cost		
Land, buildings and improvements	**23,571**	4,402
Aircraft and related support equipment (Note 1)	**152,548**	132,739
	176,119	137,141
Less: Accumulated depreciation (Note 1)	**43,912**	40,453
	132,207	96,688
Construction work in progress	**—**	13,291
	132,207	109,979
	$156,348	$134,753

Approved on behalf of the Board:
J. C. Gilmer, Director
N. R. Crump, Director

See Notes to Financial Statements

	1969	1968
	(in thousands)	
Liabilities		
Current Liabilities		
Accounts payable and accrued charges	**$ 25,767**	$ 19,514
Accounts payable to affiliated companies	**3,630**	3,402
Demand loan from Canadian Pacific Securities Limited	**6,500**	—
Unearned transportation revenue	**7,007**	6,458
Current portion of long term debt (Note 1)	**8,593**	7,542
	51,497	36,916
Long Term Debt (Notes 1 and 2)	**69,988**	68,726
Deferred Income Taxes	**8,513**	4,823
Shareholders' Equity		
Capital Stock		
5% Cumulative Redeemable Preference shares of $5 par value		
Authorized — 2,000,000 shares		
Issued — 1,950,000 shares	**9,750**	9,750
Ordinary shares of no par value		
Authorized — 4,000,000 shares		
Issued — 2,600,000 shares	**13,000**	13,000
	22,750	22,750
Retained Income	**3,600**	1,538
	26,350	24,288
	$156,348	$134,753

Auditors' Report to the Shareholders of Canadian Pacific Air Lines, Limited

We have examined the balance sheet of Canadian Pacific Air Lines, Limited as at December 31, 1969 and the statements of income, retained income and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1969 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving retroactive effect to the accounting changes as explained in Notes 1 and 6.

Price Waterhouse & Co.,
Chartered Accountants.
February 27, 1970,
Vancouver, Canada.

Notes to Financial Statements

1. *Accounting for Leased Equipment* – With effect from December 31, 1969, eleven DC-8 aircraft and related equipment leased from Canadian Pacific Railway Company have been treated for financial statement purposes as though they are owned, with the present value of lease obligations shown as long term debt. Accordingly, the aggregate of the rentals payable, excluding interest, and the cost of exercising options to purchase has been included in properties (cost $99,889,000, accumulated depreciation $31,767,000). The corresponding liability has been included in current liabilities ($8,593,000) and long term debt ($59,529,000). Rentals charged to income include a portion shown as depreciation and an interest element classified as interest on long term debt. Net income is not affected by the change in accounting treatment.

2. *Long Term Debt* – Long term debt as at December 31, 1969, consists of the following:

a) A loan from the Export-Import Bank of the United States to assist in financing the purchase of seven Boeing 737 aircraft and related equipment. Interest at 6% per annum is payable half-yearly on the outstanding principal amount, such principal to be repayable semi-annually in equal instalments commencing December 15, 1972, and ending December 15, 1975 (U.S. $9,675,000)	$10,459,000
b) Aircraft lease obligations (Note 1)	59,529,000
	$69,988,000

3. *Contingent Liability* – Notes discounted with banks, in respect of tickets purchased under the time payment plan, total $4,947,000 (1968 – $4,661,000).

4. *Commitments* – Two Boeing 727-100 aircraft are on order for delivery in March 1970, at a cost of approximately $16,900,000, of which $4,109,000 had been paid by year end.

   Outstanding commitments in respect of facilities not yet completed in the Company's new operations centre at Vancouver International Airport total approximately $4,300,000.

   Obligations under aircraft leases which have been capitalized in the financial statements expire at varying dates to 1981 and range from $13,169,000 in 1970 to $488,000 in 1981.

5. *Investment Income* – Investment income includes interest totalling $179,000 (1968 – $641,000) earned on deposits with Canadian Pacific Railway Company.

6. *Change in Reporting of Income* – With effect from January 1, 1969, the Company has adopted the recommendations of The Accounting and Auditing Research Committee of The Canadian Institute of Chartered Accountants with respect to the reporting of extraordinary items of income and expense. Consequently, the gain on disposal of properties has been shown separately in the statement of income rather than in the statement of retained income as in prior years.

7. *Restatement of Comparative Figures* – Figures for 1968 have been restated where necessary to conform with the presentation adopted for 1969, and with the changes in accounting treatment as described in Notes 1 and 6.

Five-year summary

Figures in thousands, except cents and percentages

	1965	1966	1967	1968	**1969**
Operating revenues	$ 72,007	$ 82,638	$ 95,225	$ 106,698	**$ 133,717**
Net operating income	8,438	9,762	5,875	7,927	**11,677**
Net income	7,184	7,425	3,394	2,375	**3,495**
Passengers carried	631	739	886	1,036	**1,277**
Revenue passenger miles	1,144,936	1,280,008	1,492,093	1,651,908	**2,218,463**
Passenger load factor	58.5%	57.4%	56.6%	50.4%	**52.8%**
Revenue per passenger mile – scheduled services	5.67¢	5.49¢	5.38¢	5.41¢	**5.41¢**

1969

Canadian Pacific Investments Limited

Financial Report

Board of Directors and Officers

Directors

*W. A. Arbuckle,
Chairman of the Canadian Board,
The Standard Life Assurance Company,
Montreal

*A. M. Campbell,
Chairman and chief executive officer,
Sun Life Assurance Company of Canada,
Montreal

*N. R. Crump, *Chairman of the Company,*
Canadian Pacific Railway Company, Montreal

R. Hendricks,
President and Chief Executive Officer,
Cominco Ltd., Montreal

S. E. Nixon, *Vice-Chairman,*
Dominion Securities Corporation Limited,
Montreal

H. M. Pickard, *Executive Vice-President,*
Canadian Pacific Investments Limited, Calgary

*The Hon. Duff Roblin, P.C., *President,*
Canadian Pacific Investments Limited,
Montreal

*Ian D. Sinclair,
President and Chief Executive Officer,
Canadian Pacific Railway Company, Montreal

G. J. van den Berg, *Vice-President, Finance,*
Canadian Pacific Railway Company, Montreal

*Member of Executive Committee

Officers

N. R. Crump,
Chairman and Chief Executive Officer,
Montreal

The Hon. Duff Roblin, P.C., *President,*
Montreal

Ian D. Sinclair, *Vice-President,*
Montreal

H. M. Pickard, *Executive Vice-President,*
Calgary

G. J. van den Berg,
Vice-President, Investments, Montreal

F. A. Rutherford, *Comptroller,* Montreal

D. E. Sloan, *Treasurer,* Montreal

J. C. Ames, *Secretary,* Montreal

Transfer Agent and Registrar

Montreal Trust Company, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver

Stock Listings

Preferred Shares, Series A:
Montreal, Toronto and Vancouver Stock Exchanges

Consolidated net income, including equity interest in the 1969 income retained by subsidiaries not consolidated, amounted to $44.9 million, compared with $43.7 million in the previous year. After dividends of $4.7 million on Preferred stock, income per share of Common stock amounted to 80¢. This compared with 77¢ per Common share in 1968. Before extraordinary items, income per share was equal to 74¢ per Common share in 1969 and 75¢ in 1968. Dividends declared on the Common shares totalled $23.0 million, an increase of $1.5 million, and were at the rate of 46¢ per share, compared with 43¢ in 1968.

Oil, gas and other mineral operations produced net income of $11.2 million, $619,000 less than in 1968. The income for 1969 represents the earnings of CP Oil and Gas Limited for nine months and the consolidated results of Central-Del Rio Oils, less minority interest, for the last quarter. It does not include the equity in income of Central-Del Rio in the first nine months, nor the Central-Del Rio dividend in the first half – both of which are included under their appropriate captions in the income statement.

Increased production of crude oil, natural gas and sulphur was achieved during the year. An extensive program of exploration was pursued and at year end net interests were held in 428.8 oil and 266.1 gas wells producing or capable of production.

Revenues from the production of minerals other than oil and gas were higher for the year. Although it was a poor year for potash, revenues from coal increased.

Timberland results reached a record level in 1969. Net income, at $3.1 million, was $675,000 higher than in 1968. Sales and operating revenue, at $26.6 million, represented a $4.5 million increase over 1968. Log and lumber prices reached new highs in the early months of 1969, but fell off sharply in late Spring, owing to a drastic reduction in demand and to overproduction.

Log sales from operations on Vancouver Island and mainland British Columbia reached a record high of 243 million board feet, up slightly over 1968.

Sales of lumber from the Slocan mill reflected the unprecedented demand of the first half of the year and held up well even when demand slackened. Lumber sales rose from 30.0 million board feet in 1968 to 44.8 million board feet in 1969.

Real estate and related operations showed a net income of $2.1 million, $769,000 higher than in 1968. Earnings from real estate were higher, as was income from the operation of grain elevators, livestock markets and cold storage facilities.

A total of 11 plants and warehouses was constructed and leased during the year at Marathon Realty's four industrial parks and other locations. Phase II of Keele Centre, the multi-tenant industrial complex in west-central Toronto, was completed in September.

The "Princess Promenade", a tourist-oriented project in Victoria, was begun at year end.

Strathcona House in Edmonton, a 220-suite development, was completed and fully operational in 1969. In Vancouver, Shawnoaks, the 72-unit townhouse development was completed, while Langara Gardens, which is to contain 534 high-rise and garden apartments and townhouse units had 210 units rented by year end.

Palliser Square, one of the most comprehensive urban developments in Western Canada, continued on schedule. Plans for construction of an office building in Canada Square, the first major phase of "Project 200" in Vancouver, were completed. Work on this building and the surrounding plaza is expected to commence in the near future.

Hotels and restaurants reported a net income of $864,000 compared to a net loss of $443,000 in 1968. Operating results of all hotels in the chain, with one exception, improved over the previous year. Extensive renovations of the Empress Hotel at Victoria produced better results there, and business at Le Château Champlain recovered satisfactorily from the slump experienced in 1968.

Investment income, consisting of dividends received from partly-owned subsidiary companies and dividends and interest from the Portfolio and temporary investments, amounted after expenses to $22.1 million in 1969, a decrease of $823,000. This was largely the result of a shift from interest bearing securities to equities.

Dividends from Cominco Ltd. amounted to $12.4 million and were at the same rate as in 1968. Consolidated net income of Cominco for the year was $31.8 million, or $1.91 per share, compared with $34.8 million, or $2.08 per share, in 1968. Lead and zinc prices improved progressively through 1969 making a major contribution to profits from mines of both Cominco and Pine Point Mines Limited. However, this was more than offset by the adverse effects on earnings of depressed prices of fertilizers owing to overproduction and of start-up costs of the potash operation at Vade, Saskatchewan.

Details of the Investment Portfolio of the Company are shown on page 35.

Common stock holdings, at $222.9 million, were $8.8 million lower than at the end of 1968, due largely to consolidation of Central-Del Rio Oils Limited. The only sale of common stock during the year was of $6.5 million of shares of The Huron and Erie Mortgage Corporation.

Major additions of common stocks to the Portfolio during the year were $15.7 million of The Great Lakes Paper Company Limited, $7.5 million of The Investors Group, $1.9 million of Rio Algom Mines Limited and $1.9 million of Union Carbide Canada Limited.

Dividends paid by the companies represented in the Portfolio were at the same rates as in 1968. Earnings of most of these companies showed improvement in 1969, led by the pulp and paper group. The only decrease was in the pipe lines group, attributable to difficulties experienced by Trans-Canada Pipe Lines Limited.

Statement of Consolidated Income for the year ended December 31

	1969	1968
	(in thousands)	
Oil, Gas and Other Minerals		
Gross operating revenue	**$28,101**	$25,335
Expenses including income taxes	**16,870**	13,485
Net income	**11,231**	11,850
Timberlands and Related Facilities		
Sales and operating revenue	**26,610**	22,138
Expenses including income taxes	**23,500**	19,703
Net income	**3,110**	2,435
Real Estate and Related Operations		
Gross rentals and other income	**13,236**	9,500
Expenses including income taxes	**11,165**	8,198
Net income	**2,071**	1,302
Hotels and Restaurants		
Gross operating revenue	**44,435**	37,940
Expenses including income taxes	**43,571**	38,383
Net income	**864**	(443)
Financing		
Gross operating revenue	**12,709**	6,352
Expenses including income taxes	**12,581**	6,202
Net income	**128**	150
Investment Income		
Dividends		
Cominco Ltd.	**12,431**	12,335
Other subsidiary companies not consolidated	**274**	209
Other investment income	**10,937**	12,920
	23,642	25,464
Expenses including income taxes	**1,517**	2,516
Net income	**22,125**	22,948
Net Income from Operations (after income taxes of — 1969 – $11,890,000; 1968 – $10,663,000) (Note 9)	**39,529**	38,242
Equity in income of subsidiaries not consolidated in excess of dividends included above (Note 2)	**2,252**	4,078
Consolidated Income before Extraordinary Items	**41,781**	42,320
Extraordinary items (Note 8)	**3,158**	1,330
Consolidated Net Income (Note 7)	**$44,939**	$43,650
Per common share after preferred dividends		
Consolidated income before extraordinary items	**74¢**	75¢
Consolidated net income	**80¢**	77¢

See Notes to Financial Statements

Statement of Consolidated Retained Income for the year ended December 31

	1969	1968
		(in thousands)
Balance, January 1		
As previously reported	**$125,849**	$111,059
Deduct:		
Prior period adjustments (net)	**23**	2,629
As restated	**125,826**	108,430
Add:		
Net income for the year	**44,939**	43,650
Equity in undistributed net income of Central-Del Rio Oils Limited for period prior to acquisition of majority interest (Note 1)	**2,715**	—
	173,480	152,080
Deduct:		
Dividends		
Preferred shares	**4,724**	4,749
Common shares	**23,032**	21,505
	27,756	26,254
Balance, December 31	**$145,724**	$125,826

See Notes to Financial Statements

Consolidated Investment Portfolio as at December 31, 1969

	Number of Shares	Percentage of Outstanding Voting Shares	Cost	Approximate Market Value
			(in thousands)	
Common Stocks				
The Great Lakes Paper Company Limited	1,519,569	42.17	$ 36,432	$ 35,710
Husky Oil Ltd.	522,200	5.41	5,979	6,658
The Investors Group	1,328,400	20.43	16,164	15,276
MacMillan Bloedel Limited	2,155,900	10.32	64,805	72,762
Rio Algom Mines Limited	1,210,869	9.88	28,280	22,098
Trans-Canada Pipe Lines Limited	1,383,840	16.70	51,448	45,667
Union Carbide Canada Limited	825,300	8.25	18,374	12,379
Other			1,457	2,376
			222,939	212,926
Preferred Stocks			28,225	25,360
Bonds, Debentures and Notes			13,457	11,182
			$264,621	$249,468

Consolidated Balance Sheet, December 31	**1969**	1968 (in thousands)
Assets		
Current Assets		
Cash and temporary investments, at cost (approximates market)	**$100,830**	$ 37,836
Deposits with Canadian Pacific Railway Company	**4,215**	7,938
Demand loans and accrued interest – affiliated companies	**6,543**	—
Accrued interest receivable from Cominco Ltd.	**209**	208
Dividends and other accrued interest receivable	**3,347**	2,013
Accounts receivable	**16,090**	10,693
Inventories, at the lower of cost and market	**5,588**	3,669
Prepaid expenses	**1,232**	1,073
	138,054	63,430
Investment Portfolio, at cost (market value 1969 – $249,468,000; 1968 – $315,105,000)	**264,621**	276,031
Investments in Subsidiary Companies not Consolidated (Note 2)		
Cominco Ltd.	**188,255**	183,761
Other	**7,678**	5,443
	195,933	189,204
Other Investments, at cost		
Term loans – affiliated companies	**—**	5,000
Other	**19,105**	12,367
	19,105	17,367
Properties, at cost		
Oil, gas and other minerals	**200,178**	107,481
Timberlands and related facilities	**65,696**	43,571
Real estate and related operations	**105,941**	68,414
Hotels	**65,496**	61,765
	437,311	281,231
Less: Accumulated depreciation, depletion and amortization	**72,597**	38,637
	364,714	242,594
Other Assets	**4,207**	3,500
Excess of Cost of Shares of Subsidiary Company over Equity in Net Assets at Date of Acquisition (Note 1)	**6,868**	—
	$993,502	$792,126

Approved on behalf of the Board
Duff Roblin, Director
Ian D. Sinclair, Director

See Notes to Financial Statements

	1969	1968
	(in thousands)	
Liabilities		
Current Liabilities		
Accounts payable and accrued charges		
Canadian Pacific Railway Company	**$ 11,417**	$ 2,617
Other	**19,407**	13,283
Notes and accrued interest payable		
Subsidiary companies not consolidated	**1,100**	648
Other	**178,856**	73,288
Income and other taxes payable	**2,942**	8,924
Dividends payable	**11,518**	10,755
Long term debt maturing within one year	**9,671**	2,006
	234,911	111,521
Deferred Liabilities	**6,982**	1,945
Deferred Credits		
Deferred income taxes	**42,339**	24,081
Other	**1,247**	1,138
	43,586	25,219
Long Term Debt (Note 4)	**48,765**	24,180
Minority Shareholders' Interest in Subsidiary Company	**10,060**	—
Shareholders' Equity		
Capital Stock – (Note 3)		
Preferred shares		
Authorized – 12,500,000 shares of a par value of $20 each		
Issued – 4,964,046 (1968 – 4,993,315) 4¾% Cumulative Redeemable Convertible Voting, Series A	**99,281**	99,866
Common shares		
Authorized – 100,000,000 shares without nominal or par value		
Issued – 50,077,538 (1968 – 50,015,852) shares	**322,393**	321,769
Paid-in surplus	**81,800**	81,800
Retained income (Note 3)	**145,724**	125,826
	649,198	629,261
	$993,502	$792,126

Auditors' Report to the Shareholders of Canadian Pacific Investments Limited

We have examined the consolidated balance sheet of Canadian Pacific Investments Limited and subsidiary companies as at December 31, 1969 and the statements of consolidated income and consolidated retained income for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. In respect of the equity in the undistributed net income of Cominco Ltd., we have relied upon the report of the auditors who examined its financial statements.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1969 and the results of their operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving retroactive effect to the changes in reporting of income as explained in Note 7 to the financial statements.

Price Waterhouse & Co., Chartered Accountants
Montreal, Quebec, March 4, 1970

Notes to Financial Statements

Note 1
Basis of Consolidation

The consolidated balance sheet at December 31, 1968 and the statements of consolidated income and retained income for the year then ended include the accounts of all subsidiaries which were then wholly-owned, namely Canadian Pacific Oil and Gas Limited (CPOG), Marathon Realty Company Limited, Pacific Logging Company Limited, Canadian Pacific Hotels Limited and Canadian Pacific Securities Limited. The accounts of CanPac Minerals Limited, a wholly-owned subsidiary incorporated in 1969, are included in the consolidated balance sheet at December 31, 1969, and in the statements of consolidated income, under oil, gas and other minerals, and retained income from the date of incorporation.

Early in 1969, Canadian Pacific Investments Limited (CPI) increased its interest in Central-Del Rio Oils Limited (CDR) from 49.97% to 51.6%. On September 29, 1969, CDR shareholders approved an agreement whereby CDR acquired from CPI all the outstanding shares of CPOG in exchange for 23,708,000 shares of CDR, thus increasing CPI's interest in CDR to 89.3%. The consolidated balance sheet at December 31, 1969 includes the financial statements of all companies listed above and those of CDR. The statement of consolidated income for the year 1969 includes, under oil, gas and other minerals, the income of CPOG for the period to September 30, 1969, and the consolidated income of CDR for the period from October 1 to December 31, 1969, after deduction of the minority interest of $249,000. CPI's equity in the income of CDR for the period in 1969 prior to October 1 is included in the statement of consolidated income in equity in income of subsidiaries not consolidated. The excess of the cost of CPI's investment in CDR over the book value of the underlying net assets, amounting to $6,868,000, is shown as excess of cost of shares over equity in net assets at date of acquisition in the consolidated balance sheet at December 31, 1969.

Consequent upon the increase in its interest in CDR to 89.3% and the consolidation of the financial statements of CDR, CPI has included in its statement of consolidated retained income its equity of $2,715,000 in the undistributed income applicable to its holdings of CDR for the period from June, 1964, when the first substantial holding of CDR shares was acquired, to the acquisition of control in 1969.

The statement of consolidated income is designed to present the revenues and expenses of the various areas of the companies' operations. To this end, certain operating revenues include amounts charged to other consolidated entities and reflected in expenses elsewhere in the statement. Consolidated net income is not affected by this practice.

Note 2
Investments in Subsidiary Companies not Consolidated

The financial statements of Cominco Ltd. and other unconsolidated subsidiaries are not consolidated because of the existence of substantial minority interests. However, the equity method of accounting has been followed in stating the investments in these companies, so that CPI includes each year in consolidated income its share of their income.

CPI acquired 8,412,500 shares of Cominco Ltd. (51.35%) from CPR in December, 1963 at CPR's average cost of $2.03 per share. Subsequently CPI adjusted the carrying value of these shares to the book value of its equity in the underlying assets as shown by the consolidated financial statements of Cominco Ltd. at December 31, 1963 ($11.75 per share). The excess of the value thus established over the acquisition cost, amounting to $81,800,000, was designated as paid-in surplus. Since 1962 CPI has acquired 467,161 shares of Cominco Ltd. from other sources at market prices and recorded these acquisitions at cost. At December 31, 1968 and December 31, 1969, 53.18% was owned by CPI.

An analysis of investments in unconsolidated subsidiaries is shown below:

	Investments in	
	Cominco Ltd.	Other subsidiary companies not consolidated
	(in thousands)	
Cost of acquisition	$ 31,216	$3,198
Adjustment of carrying value as described above	81,800	—
Equity in net income since acquisition, less dividends received	52,956	(209)
Equity in other increases in retained income	2,283	—
	168,255	2,989
6¼ % Notes due May 1, 1972	20,000	—
Advances	—	4,689
	$188,255	$7,678

Note 3
Capital Stock

Each preferred share, series A, is convertible at the option of the holder into two common shares, and is redeemable at CPI's option at $20 per share after November 1, 1972.

At December 31, 1969, 4,994,370 warrants for the purchase of common shares were outstanding. Each warrant entitles the holder to purchase one common share at $12 per share on or before November 1, 1971 and thereafter and on or before November 1, 1974 at $14 per share.

In 1969, a total of 61,686 common shares was issued, consisting of 3,148 shares on exercise of warrants and 58,538 shares on conversion of preferred shares.

Conditions attached to the preferred shares include certain restrictions on distributions on shares ranking junior to the preferred shares. The amount of retained income available for such distributions was approximately $69,000,000 at December 31, 1969.

Note 4
Long Term Debt

	December 31 **1969**	1968
	(in thousands)	
6½% First Mortgage Bonds, maturing 1995, subject under the Trust Deed to annual sinking fund payments based on percentages of the amount outstanding at March 15, 1969, ranging from 1.546% in 1970 to 7.011% in 1994	**$11,176**	$11,186
7½% Bank term loan repayable in quarterly instalments of $1,000,000 commencing August 31, 1969 with a final instalment of $2,000,000 payable on February 17, 1974	**18,000**	15,000
Term loans bearing interest at prime rate plus ¼% repayable in equal monthly instalments to June 1974	**2,310**	—
Term loans bearing interest at prime rate plus ½% repayable in equal semi-annual instalments April 15 and October 15, 1970 to 1974	**26,950**	—
	58,436	26,186
Less: Long term debt maturing within one year	**9,671**	2,006
	$48,765	$24,180

Annual maturities and sinking fund requirements for each of the five years following December 31, 1969 are, 1970 - $9,671,000; 1971 - $10,687,000; 1972 - $10,699,000; 1973 - $10,662,000; 1974 - $6,536,000.

Note 5
Interest Expense

Interest on long term debt for 1969 was $3,623,000 (1968 – $533,000) and on short term notes for 1969 was $10,354,000 (1968 – $5,350,000).

Note 6
Depreciation, Depletion and Amortization

Amounts charged for depreciation, depletion and amortization in the statement of consolidated income were $12,478,000 in 1969 (1968 – $10,708,000).

With effect from January 1, 1969, the sinking fund method of providing for depreciation on major real estate developments has been adopted in place of the straight-line method. The sinking fund method will write off the cost of the buildings over a maximum period of 40 years in a series of annual instalments increasing at the rate of 5% compounded annually. Under this method depreciation charged to income in later years will be substantially higher than the amount charged in earlier years. This change, which has been applied retroactively, had no significant effect on consolidated net income for 1968 or 1969.

The amount of depletion charged expenses for the year 1969 was $5,228,000 (1968 – $4,070,000) and the accumulated depletion at December 31, 1969, is $37,868,000 (1968 – $16,697,000).

Note 7
Changes in Reporting of Income

With effect from January 1, 1969, CPI has adopted the recommendations of The Accounting and Auditing Research Committee of The Canadian Institute of Chartered Accountants with respect to the reporting of extraordinary items of income and expense and of adjustments relating to prior years. Consequently, extraordinary items have been shown separately

and opening retained income restated to reflect prior period adjustments. Effect has also been given to the inclusion in income of various items, generally of a non-recurring nature, formerly added to or deducted from retained income.

Note 8
Extraordinary Items

Extraordinary items comprise, in 1969, net gain on disposal of investments, $752,000; equity in gains on sales of land and mining investment of Cominco Ltd., $1,655,000; and equity in reduction in income taxes of a subsidiary of Cominco Ltd. resulting from losses and tax credits of prior years, $751,000; and, in 1968, equity in gain on sale of hydro-electric plant of Cominco Ltd., $1,330,000.

Note 9
Income Taxes

The provision for income taxes reflected in net income from operations, in the total amount of $11,890,000 (1968 – $10,663,000), includes $7,111,000 (1968 – $5,012,000) in respect of deferred income taxes.

The companies have followed the practice of charging against income both the income taxes currently payable and tax deferments resulting from timing differences between write-offs for book and for tax purposes. In computing deferred income taxes in respect of oil, gas and other minerals an estimated tax rate which is less than the current effective rate has been used. While The Accounting and Auditing Research Committee of The Canadian Institute of Chartered Accountants has recommended the use of current effective rates in such a situation, CPI believes its procedures result in adequate provision for deferred income taxes. CPI's policy is more conservative than the general practice in the oil and gas industry in Canada, where the majority of companies do not provide any amount for income tax deferred as a result of claiming drilling, exploration and lease acquisition costs in excess of amounts written off in the accounts (a practice which is accepted by accounting authorities outside Canada).

The additional amounts which would have been provided if current effective tax rates had been used are $1,900,000 for the year ended December 31, 1968, and $2,000,000 for the year ended December 31, 1969. The total additional amount which would have been provided to December 31, 1969, is $11,900,000.

Note 10
Commitments and Contingencies

Commitments for capital expenditures were $14,620,000 at December 31, 1968, and $28,850,000 at December 31, 1969.

Fording Coal Limited, a 60% owned subsidiary, has negotiated bank loans of U.S. $50,000,000 of which CPI has guaranteed 60% and Cominco Ltd. 40%. CPI and Cominco Ltd. will also be contingently liable under a guarantee of 60% and 40% respectively of a five-year loan for U.S. $10,000,000 being negotiated by Fording Coal Limited with the Export-Import Bank of the United States.

Note 11
Foreign Exchange

Cash and temporary investments include deposits with United States banks which have been translated into Canadian dollars at the rates in effect at the balance sheet dates. Gains or losses on exchange are included in or charged to income.

Note 12
Directors' Remuneration

From company and subsidiaries consolidated	$151,000
From subsidiaries not consolidated	147,000

Five-year summary	1965	1966	1967	1968	**1969**
		Figures in thousands, except amounts per share			
Net income from operations					
Oil, gas and other minerals	$ 7,733	$ 8,723	$ 10,609	$ 11,850	**$ 11,231**
Timberlands and related facilities	592	(167)	542	2,435	**3,110**
Real estate and related operations	469	637	1,226	1,302	**2,071**
Hotels and restaurants	608	692	870	(443)	**864**
Financing	—	41	204	150	**128**
Investment income	21,491	22,119	19,793	22,948	**22,125**
	30,893	32,045	33,244	38,242	**39,529**
Equity in income of subsidiaries not consolidated	10,969	9,963	6,710	4,078	**2,252**
Income before extraordinary items	41,862	42,008	39,954	42,320	**41,781**
Extraordinary items	—	7,668	4,207	1,330	**3,158**
Consolidated Net Income	$ 41,862	$ 49,676	$ 44,161	$ 43,650	**$ 44,939**
Dividends — Preferred shares	—	—	—	$ 4,749	**$ 4,724**
— Common shares	$ 20,065	$ 20,065	$ 20,065	21,505	**23,032**
Number of Shares Outstanding					
Common	47,191	48,324	50,000	50,016	**50,078**
Preferred	—	—	5,000	4,993	**4,964**
Per Common Share after Preferred Dividends					
Income before extraordinary items	88¢	86¢	78¢	75¢	**74¢**
Consolidated net income	88	102	86	77	**80**
Dividends	42	41	40	43	**46**
Investments at year end					
Portfolio	$187,456	$192,031	$239,026	$276,031	**$264,621**
Subsidiaries not consolidated	127,662	148,604	176,495	189,204	**195,933**
Properties	127,763	160,027	194,665	242,594	**364,714**

Canadian Pacific

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